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DISTRICT HEALTH DEPARTMENT NO. 2
OGEMAW COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2008

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AUDITORS' REPORT

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January 19, 2009

Independent Auditors' Report

Members of the Board
District Health Department No. 2
Ogemaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the District Health Department No. 2, Ogemaw County, Michigan, as of and for the year ended September 30, 2008, which collectively comprise the Health Department's basic financial statements, as listed in the index. These financial statements are the responsibility of the Health Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District Health Department No. 2 as of September 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2009, included in the Single Audit Report issued under a separate cover, on our consideration of District Health Department No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Gracik & Co., P.C.

DISTRICT HEALTH DEPARTMENT NO. 2



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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of **District Health Department No. 2, Michigan**, (the District) we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2008. This Analysis is a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34).

Financial Highlights

- The District's assets exceeded its liabilities by \$809,896 (*net assets*) for the fiscal year reported. Of this amount, \$743,628 (*unrestricted net assets*) represents the portion available to maintain the District's continuing obligations to citizens and creditors.
- The District's total net assets decreased by \$38,187.
- The District's governmental fund reported an ending fund balance of \$889,594 this year. This compares to the prior year ending fund balance of \$955,922 showing a decrease of \$66,328 during the current year. Unreserved fund balance of \$873,559 for fiscal year 2008 shows a \$96,935 increase over the prior year. This accounts for 98% of the total fund balance and is available for spending at the District's discretion (*unreserved fund balance*).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The District also includes in this report other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The District's audit report includes the *government-wide financial statements*. These statements provide both long-term and short-term information about the District's overall status in a manner similar to a private-sector business, and are reported using the full accrual basis of accounting.

The *statement of net assets* provides information on all of the District's assets and liabilities, with the difference between the two being reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* provides information showing how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

The government -wide financial statements can be found in the Statement of Net Assets and the Statement of Activities in this report.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related laws and regulations.

Governmental Funds. *Governmental funds* are reported in the fund financial statements and encompass essentially the same functions reported as *governmental activities* in the government -wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the District's governmental fund. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's short-term financing requirements.

Since the government -wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balance provide a reconciliation to assist in understanding the differences between these two perspectives.

The District maintains 45 individual governmental funding sources that make up one general fund. Data from these sources are combined into a single, aggregated presentation.

The District adopts an annual budget and budgetary comparison statements are included in the basic financial statements to demonstrate compliance.

The government fund financial statements can be found in the Balance Sheet, Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities, Statement of Revenue, Expenditures and Changes in Fund Balance Governmental Fund, and Reconciliation of the Statement of Revenue, Expenditure and Changes in Fund Balance of the Governmental Fund to the Statement of Activities in this report.

Notes to Financial Statements

The accompanying notes to financial statements provide information essential to a full understanding of the government -wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual.

Analysis of Financial Position:

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of District Health Department No. 2, assets exceeded liabilities by \$809,896 at the close of the fiscal year.

Summary of Net Assets:

The following summarizes the net assets of District Health Department No. 2 at September 30, 2008 and 2007:

Net Assets Summary

	<u>2008</u>	<u>2007</u>
Current Assets	\$ 1,159,942	\$ 1,126,576
Capital Assets, Net	<u>60,740</u>	<u>83,380</u>
Total Assets	<u>1,220,682</u>	<u>1,209,956</u>
Current Liabilities	234,479	170,654
Long-Term Liabilities	<u>176,307</u>	<u>191,219</u>
Total Liabilities	<u>410,786</u>	<u>361,873</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	50,233	62,437
Restricted	16,035	18,407
Unrestricted	<u>743,628</u>	<u>767,239</u>
Total Net Assets	<u>\$ 809,896</u>	<u>\$ 848,083</u>

A portion of the District's net assets, \$16,035 (2%) represent resources that are subject to external restrictions on how they may be used. This amount relates to donor donations for the Breast and Cervical Cancer Program.

The District's net assets decreased by \$38,187 during the current fiscal year. This reflects the degree to which ongoing expenses exceeded ongoing revenues.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets as of September 30, 2008, amounted to \$60,740 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements (the storage garage at the West Branch office), and furniture, fixtures and equipment. Net capital assets for the District decreased by \$22,640 or 27%. Future assets will be recognized only when value is equal to or greater than \$5,000 for each individual asset or each combined batch of assets purchased. No capital assets were purchased in the current year. Total depreciation expense for this year amounts to \$22,640 with ending accumulated depreciation being \$186,533.

Capital Assets Summary
(Net of depreciation)

Buildings and improvements	\$ 22,020
Furniture, fixtures and equipment	<u>38,720</u>
Capital Assets, Net	<u>\$ 60,740</u>

Additional information on capital assets can be found in the Notes to Financial Statements, Note 4.

Long-term Liabilities

Note Payable. A note payable was incurred in 2005 to finance capital improvements, namely the new phone system. At the end of the current fiscal year, the District had total notes payable of \$10,507.

Compensated Absences. Compensated absences for the District at fiscal year end amount to \$165,800. This is the accumulated amount of benefits set aside for vested employees. Accrued leave benefits are shown as a liability on the government-wide financial statements.

Additional information on long-term debt can be found in the Notes to Financial Statements, Note 5.

Governmental Fund Balance Reserves. As previously noted the unreserved fund balance amounts to \$873,559 and is available for spending at the District's discretion. The remaining reserved fund balance is restricted from available spending and represents reserves for external donor donations for the Breast and Cervical Cancer Program.

Summary of Revenues and Expenses:

The following summarizes the revenues and expenses of District Health Department No. 2 at September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Program Revenues:		
Charges for Services	\$ 1,949,803	\$ 2,068,689
Operating Grants and Contributions	<u>2,453,964</u>	<u>2,324,474</u>
Total Program Revenues	<u>4,403,767</u>	<u>4,393,163</u>
 General Revenue:		
Cigarette Tax	23,888	29,233
County Appropriations	435,481	435,481
Interest and Investment Earnings	6,457	17,073
Rent Income	18,447	64,055
Other	<u>0</u>	<u>94</u>
Total General Revenue	<u>484,273</u>	<u>545,936</u>
 Total Revenue	 4,888,040	 4,939,099
 Program Expenses:		
Health Department	4,925,529	4,959,957
Interest and Fees on Long-Term Debt	<u>698</u>	<u>1,145</u>
Total Program Expenses	<u>4,926,227</u>	<u>4,961,102</u>
 Change in Net Assets	 (38,187)	 (22,003)
 Beginning Net Assets	 <u>848,083</u>	 <u>870,086</u>
 Ending Net Assets	 <u>\$ 809,896</u>	 <u>\$ 848,083</u>

Excess of Expenditures

The District budget versus actual indicates line items that have exceeded the final amended budget amounts. Primarily there is a negative variance of \$82,862 for contractual services, \$33,505 for operating supplies and \$47,599 for other expenses. The contractual service variance, however, includes an accounts payable audit entry for legal settlements, which was not included in the final budget amendment. The operating supplies variance was due to donated vaccine expense being more than expected. The other expenses variance was due to an audit entry to record an allowance for bad debt in the current year of \$43,452, which was not included in the final budget amendment. The resulting impact on the budget to actual reveals an overall excess in expenditures of \$24,407.

Currently Known Conditions

Funding from the State of Michigan continues to be uncertain each year due to budget constraints at the State level.

Requests for Information

This financial report is designed to provide a general overview of District Health Department No. 2 finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 630 Progress, West Branch, Michigan 48661.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

STATEMENT OF NET ASSETS
September 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ 287,736
Receivables: (Note 3)	
Accounts, Net	529,979
Due from Other Governmental Units	177,054
Prepaid Expenses	54,354
Inventory (Note 1)	110,819
Noncurrent Assets:	
Capital Assets, Net (Note 4)	<u>60,740</u>
Total Assets	<u>1,220,682</u>
<u>Liabilities</u>	
Accounts Payable	122,810
Due to State	11,349
Accrued Wages Payable	61,144
Accrued Liabilities	39,176
Long-Term Liabilities: (Note 5)	
Due Within One Year	10,507
Due In More Than One Year	<u>165,800</u>
Total Liabilities	<u>410,786</u>
<u>Net Assets</u>	
Invested In Capital Assets, Net of Related Debt	50,233
Restricted For:	
Breast and Cervical Cancer Program	16,035
Unrestricted	<u>743,628</u>
Total Net Assets	<u>\$ 809,896</u>

The accompanying notes to financial statements are an integral part of this statement.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental Activities:				
Health and Welfare:				
Health Department	\$ 4,925,529	\$ 1,949,803	\$ 2,453,964	\$ (521,762)
Interest and Fees on Long-Term Debt	<u>698</u>	<u>0</u>	<u>0</u>	<u>(698)</u>
Total Governmental Activities	<u>\$ 4,926,227</u>	<u>\$ 1,949,803</u>	<u>\$ 2,453,964</u>	<u>(522,460)</u>
General Revenue:				
Cigarette Tax				23,888
County Appropriations				435,481
Interest and Investment Earnings				6,457
Rent Income				<u>18,447</u>
Total General Revenue				<u>484,273</u>
Change in Net Assets				(38,187)
Net Assets - Beginning				<u>848,083</u>
Net Assets - Ending				<u>\$ 809,896</u>

The accompanying notes to financial statements are an integral part of this statement.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2008

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and Cash Equivalents (Note 2)	\$ 287,736
Receivables: (Note 3)	
Accounts, Net	529,979
Due from Other Governmental Units	177,054
Prepaid Expenses	54,354
Inventory (Note 1)	<u>110,819</u>
Total Assets	<u>\$ 1,159,942</u>
<u>LIABILITIES AND FUND EQUITY</u>	
<u>Liabilities</u>	
Accounts Payable	\$ 122,810
Due to State	11,349
Accrued Wages Payable	61,144
Accrued Liabilities	39,176
Deferred Revenue	<u>35,869</u>
Total Liabilities	<u>270,348</u>
<u>Fund Equity</u>	
Fund Balance:	
Reserved For: (Note 1)	
Breast and Cervical Cancer Program	16,035
Unreserved:	
Undesignated, Reported In:	
General Fund	<u>873,559</u>
Total Fund Equity	<u>889,594</u>
Total Liabilities and Fund Equity	<u>\$ 1,159,942</u>

The accompanying notes to financial statements are an integral part of this statement.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
September 30, 2008

Total Governmental Fund Balance		\$	889,594
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:			
Capital Assets Cost	\$	247,273	
Accumulated Depreciation		<u>(186,533)</u>	
			60,740
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:			
Grants Receivable			35,869
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Notes Payable		(10,507)	
Compensated Absences Payable		<u>(165,800)</u>	
Total Long-Term Liabilities			<u>(176,307)</u>
Total Net Assets - Governmental Activities		\$	<u>809,896</u>

The accompanying notes to financial statements are an integral part of this statement.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended September 30, 2008

	<u>General Fund</u>
<u>Revenue</u>	
Federal Grants and Revenue	\$ 1,600,194
State Grants and Revenue	205,331
State Shared Revenue	476,220
Contributions from Local Units	459,481
Licenses and Permits	229,801
Charges for Services	1,835,340
Interest and Rentals	24,904
Other Revenue	20,900
Total Revenue	<u>4,852,171</u>
<u>Expenditures</u>	
Current:	
Health and Welfare	4,907,365
Debt Service:	
Principal	10,436
Interest and Fiscal Charges	698
Total Expenditures	<u>4,918,499</u>
Excess of Revenue Over (Under) Expenditures	(66,328)
Fund Balance - Beginning of Year	<u>955,922</u>
Fund Balance - End of Year	<u>\$ 889,594</u>

The accompanying notes to financial statements are an integral part of this statement.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008

Total Net Change in Fund Balance - Governmental Fund	\$ (66,328)
Amounts reported for governmental activities in the statement of activities are different because:	
Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:	
Due from State	35,869
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Current year depreciation expense	(22,640)
Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:	
Notes Payable	10,436
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Net (increase) decrease in accrued compensated absences	<u>4,476</u>
Change in Net Assets of Governmental Activities	<u>\$ (38,187)</u>

The accompanying notes to financial statements are an integral part of this statement.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District Health Department No. 2 (Health Department) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Reporting Entity

District Health Department No. 2 functions as a joint venture between Ogemaw, Oscoda, Alcona and Iosco Counties. The Health Department was established to provide various health services to the residents of the above aforementioned counties.

The Health Department's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the Health Department exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Fund Accounting

The Health Department uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Health Department functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The general fund of the Health Department is in the governmental category.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Health Department's major governmental fund:

General Fund - The fund accounts for all financial resources. Revenues are derived primarily from federal and state grants and revenue, and charges for services.

C. Basis of Presentation

The Health Department's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements:

The statement of net assets and the statement of activities display information about the Health Department as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Health Department that are governmental and those that are considered business-type activities. The Health Department does not currently have any business-type activities.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Health Department's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Health Department, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Health Department.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Fund Financial Statements:

Fund financial statements report detailed information about the Health Department. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The Health Department's general fund is considered a major fund.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The governmental fund uses the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Health Department, available means expected to be received within 60 days of the fiscal year-end.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Nonexchange transactions, in which the Health Department receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Health Department must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Health Department on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: interest, grants and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated vaccines used during the year is reported in the operating statement as donated revenue with a like amount reported as vaccine expense net of beginning and ending inventory amounts.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Health Department are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

G. Inventory – Vaccines

Inventory represents unused vaccines donated from the Michigan Department of Community Health.

Inventory on the financial statements is stated at cost and expensed when used.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

General capital assets are those assets that result from expenditures in the governmental fund. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Health Department does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	3 - 20 years

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from the governmental fund are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

J. Compensated Absences

The Health Department reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the Health Department's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Health Department or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended September 30, 2008.

M. Budgetary Policies and Data

District Health Department No. 2 normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Director of Finance submits to the Health Department Board a proposed budget prior to September 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of Board motion.
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the Health Department Board.

The Health Department adopts a budget for the General Fund

The budgets of the Health Department are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level.

N. Governmental Fund Balance Reserves

The Health Department records reservations for portions of governmental fund balances which are legally segregated for specific future use or which do not represent available spendable resources and therefore not available for appropriation. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. A reservation of fund balance has been established for donor restricted donations to the Breast and Cervical Cancer Program.

O. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Health Department's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and Cash Equivalents	\$ <u>287,736</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking Accounts)	\$ 287,268
Petty Cash and Cash on Hand	<u>468</u>
Total	\$ <u>287,736</u>

Interest Rate Risk

In accordance with its investment policy, the Health Department will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Health Department's known cash requirements.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Health Department's deposits may not be returned to it. As of September 30, 2008, \$277,515 of the Health Department's bank balance of \$291,281 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Health Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Health Department will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the Health Department's investment policy which is in accordance with State law, and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Health Department will do business.

Foreign Currency Risk

The Health Department is not authorized to invest in investments which have this type of risk.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

The Health Department Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Health Department to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- λ United States government or federal agency obligation repurchase agreements
- λ Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Health Department's deposits and investments are in accordance with statutory authority.

NOTE 3 - RECEIVABLES

Receivables at September 30, 2008, consist of accounts (fees), intergovernmental grants and interest. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The allowance for doubtful accounts at September 30, 2008 was \$43,452.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2008, was as follows:

	Beginning Balance 10/01/07	Increases	Decreases	Ending Balance 09/30/08
<u>Governmental Activities</u>				
Capital Assets Being Depreciated:				
Buildings and Improvements	\$ 36,700	\$ 0	\$ 0	\$ 36,700
Furniture, Fixtures and Equipment	<u>210,573</u>	<u>0</u>	<u>0</u>	<u>210,573</u>
Subtotal	<u>247,273</u>	<u>0</u>	<u>0</u>	<u>247,273</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(12,845)	(1,835)	0	(14,680)
Furniture, Fixtures and Equipment	<u>(151,048)</u>	<u>(20,805)</u>	<u>0</u>	<u>(171,853)</u>
Subtotal	<u>(163,893)</u>	<u>(22,640)</u>	<u>0</u>	<u>(186,533)</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 83,380</u>	<u>\$ (22,640)</u>	<u>\$ 0</u>	<u>\$ 60,740</u>

Depreciation expense was charged in full to the Health Department function.

NOTE 5 - LONG-TERM LIABILITIES

A. Notes Payable

Governmental

Capital Improvement Note:

\$45,262 note payable dated 2005 to First Bank - West Branch to finance capital improvements. Payable in monthly installments of \$928 including interest at 4.25% on the unpaid balance.

\$ 10,507

B. Compensated Absences Payable

The compensated absences balance represents benefits which Health Department employees have a vested right to receive upon termination and/or retirement from employment in accordance with formulas in negotiated contracts. The amount of accumulated compensated absences as of September 30, 2008 was \$165,800, of which \$0 is current.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

C. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the Health Department for the year ended September 30, 2008:

	<u>Balance 10/01/07</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/08</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Notes Payable	\$ 20,943	\$ 0	\$ 10,436	\$ 10,507	\$ 10,507
Compensated Absences	<u>170,276</u>	<u>0</u>	<u>4,476 *</u>	<u>165,800</u>	<u>0</u>
Total Long-Term Liabilities	<u>\$ 191,219</u>	<u>\$ 0</u>	<u>\$ 14,912</u>	<u>\$ 176,307</u>	<u>\$ 10,507</u>

*Represents net of additions and retirements for the year.

The interest expenditures on long-term obligations for the year were \$698.

The annual aggregate maturities for debt outstanding (excluding compensated absences) as of September 30, 2008 are as follows:

Notes Payable	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2009	<u>\$ 10,507</u>	<u>\$ 236</u>	<u>\$ 10,743</u>

NOTE 6 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Health Department's actual expenditures and budgeted expenditures for the budgetary fund has been shown on an activity basis. The approved budget of the Health Department was adopted at the activity level.

During the year ended September 30, 2008, the Health Department incurred expenditures which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund/Salaries and Wages	\$ 2,424,212	\$ 2,440,082	\$ 15,870
General Fund/Advertising	\$ 4,519	\$ 6,130	\$ 1,611
General Fund/Contractual Services	\$ 212,302	\$ 295,164	\$ 82,862
General Fund/Dues and Subscriptions	\$ 6,509	\$ 6,621	\$ 112
General Fund/Operating Supplies	\$ 485,277	\$ 518,782	\$ 33,505
General Fund/Other	\$ 3,084	\$ 50,683	\$ 47,599

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 7 - RETIREMENT PLANS

Defined Benefit Plan

Plan Description

The Health Department's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The plan covers all employees hired prior to January 1, 2000 who elected not to participate in the MERS defined contribution plan on May 1, 2001. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling 1-800-767-6377.

Funding Policy

The Health Department is required to contribute at an actuarially determined rate. The current rate is 11.25% of annual covered payroll for general members and 18.79% of covered payroll for management members. Employees are required to contribute 1% of eligible earnings for general members and 2% of eligible earnings for management members. If a member leaves the employ of the Health Department, or dies, without a retirement allowance or other benefit payable on his account, the members' accumulated contributions (with interest) are refunded to the member, if living, or to the surviving spouse or members beneficiary. The contribution requirements are established and may be amended by the MERS Retirement Board.

Annual Pension Cost

For the year ended September 30, 2008, the Health Department's pension cost of \$166,782 was equal to the Health Department's required and actual contributions.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2006	\$ 158,403	100 %	\$ 0
September 30, 2007	\$ 179,178	100 %	\$ 0
September 30, 2008	\$ 166,782	100 %	\$ 0

The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to merit longevity and promotions. Both (a) and (b) include an inflation component. The actuarial value of the plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2007 was 18 years.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 7 - RETIREMENT PLANS (CONTINUED)

Funded Status and Funding Progress

As of December 31, 2007, the most recent actuarial valuation date, the plan was 84% funded. The actuarial accrued liability for benefits was \$5,716,285, and the actuarial value of assets was \$4,781,739, resulting in an unfunded actuarial accrued liability (UAAL) of \$934,546. The covered payroll (annual payroll of active employees covered by the plan) was \$1,185,716, and the ratio of the UAAL to the covered payroll was 79%.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/05	\$ 4,101,599	\$ 5,028,580	\$ 926,981	82 %	\$ 1,521,793	61 %
12/31/06	\$ 4,441,046	\$ 5,336,535	\$ 895,489	83 %	\$ 1,339,377	67 %
12/31/07	\$ 4,781,739	\$ 5,716,285	\$ 934,546	84 %	\$ 1,185,716	79 %

Defined Contribution Plan

Plan Description

The Health Department's defined contribution pension plan provides retirement benefits to plan members and beneficiaries. The plan covers employees hired on or after January 1, 2000. The plan was also made available to current employees in the form of a one-time option to move from the MERS Defined Benefit Plan to the MERS Defined Contribution Plan. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operated under Public Act 220 of 1996, and the MERS Plan Document as revised. The plan services are provided by an Alliance Agreement of May 1997 by MERS, exclusively through the ICMA Retirement Corporation as the plan administrator. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing MERS of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling 1-800-767-6377.

Funding Policy – Union Employees

The Health Department is required to contribute 5% of each eligible union employee's earnings for the plan year, subject to the limitations of sections 415(c) and (e) of the Internal Revenue Code. Employees are not required to contribute. However, if employees contribute 6% of eligible earnings, the employer will match the contribution at 6%.

Funding Policy – Non-Union Employees

The Health Department is required to contribute 7% of each eligible non-union employee's earnings for the plan year, subject to the limitations of sections 415(c) and (e) of the Internal Revenue Code. Employees are required to contribute 7% of eligible earnings.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 7 - RETIREMENT PLANS (CONTINUED)

Vesting

Both union and non-union employees become vested in the plan at the rate of 20% per year after one year of service with 100% vesting after five years of service.

Plan Contributions

During the year ended September 30, 2008, the Health Department contributed \$57,363 on behalf of union employees, and \$6,617 on behalf of non-union employees. Employee contributions amounted to \$44,102 for union employees and \$2,482 for non-union employees.

NOTE 8 - RISK MANAGEMENT

The Health Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Health Department continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 9 - CONTINGENCIES AND COMMITMENTS

The Health Department participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended September 30, 2008, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the Health Department expects such amounts, if any, to be immaterial.

The Health Department is currently a defendant in a lawsuit where a settlement has been offered to the plaintiff in the amount of \$50,000. Although the outcome of this suit is not final, it is the opinion of the Health Department's legal council that the settlement will be accepted. The total settlement has been recorded as a liability in the fund financial statements as of September 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended September 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Federal Grants and Revenue	\$ 1,755,309	\$ 1,712,690	\$ 1,600,194	\$ (112,496)
State Grants and Revenue	74,571	50,796	205,331	154,535
State Shared Revenue	504,134	518,022	476,220	(41,802)
Contributions from Local Units	459,247	459,481	459,481	0
Licenses and Permits	240,892	230,604	229,801	(803)
Charges for Services	1,761,372	1,860,968	1,835,340	(25,628)
Interest and Rentals	48,100	28,100	24,904	(3,196)
Other Revenue	32,983	33,431	20,900	(12,531)
Total Revenue	<u>4,876,608</u>	<u>4,894,092</u>	<u>4,852,171</u>	<u>(41,921)</u>
<u>Expenditures</u>				
Current:				
Salaries and Wages	2,240,111	2,424,212	2,440,082	(15,870)
Payroll Taxes and Employee Benefits	1,015,938	1,057,740	987,043	70,697
Advertising	4,519	4,519	6,130	(1,611)
Contractual Services	375,785	212,302	295,164	(82,862)
Dues and Subscriptions	6,509	6,509	6,621	(112)
Education	6,208	6,208	6,118	90
Insurance	37,451	37,451	32,492	4,959
Office Expense	49,289	47,149	39,576	7,573
Operating Supplies	512,040	485,277	518,782	(33,505)
Printing	5,594	5,594	1,928	3,666
Rent	141,548	141,548	135,761	5,787
Repairs and Maintenance	73,593	73,740	67,141	6,599
Travel	278,213	261,486	235,463	26,023
Utilities	110,797	111,194	84,381	26,813
Other	2,934	3,084	50,683	(47,599)
Capital Outlay	4,943	4,943	0	4,943
Debt Service:				
Principal	10,437	10,437	10,436	1
Interest and Fiscal Charges	699	699	698	1
Total Expenditures	<u>4,876,608</u>	<u>4,894,092</u>	<u>4,918,499</u>	<u>(24,407)</u>
Excess of Revenue Over (Under) Expenditures	0	0	(66,328)	(66,328)
Fund Balances - Beginning of Year	<u>955,922</u>	<u>955,922</u>	<u>955,922</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 955,922</u>	<u>\$ 955,922</u>	<u>\$ 889,594</u>	<u>\$ (66,328)</u>



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
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Kyle E. Troyer, CPA

Herman A. Bertuleit

January 19, 2009

Management and the Board of Health
District Health Department No. 2
Ogemaw, Michigan

We have conducted the audit of the financial statements of the governmental activities and the major fund of the District Health Department No. 2 as of and for the year ended September 30, 2008 and have issued our report dated January 19, 2009. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the Health Department during the audit and met with management on January 19, 2009. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Health, and the Michigan Department of Community Health and federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Stephenson, Gracik & Co., P.C.

Appendix 1

Communication to Those Charged with Governance

Responsibilities under Generally Accepted Auditing Standards

As stated in our engagement letter dated October 8, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered District Health Department No. 2's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether District Health Department No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about District Health Department No. 2's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on District Health Department No. 2's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on District Health Department No. 2's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated October 8, 2008.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the Health Department during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Appendix 1

Communication to Those Charged with Governance

Difficulties Encountered During the Audit

We encountered no difficulties during the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management. A summary of unadjusted audit differences was provided to management on January 19, 2009.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Appendix II

Management Comments

In planning and performing our audit of the financial statements of District Health Department No. 2 as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered District Health Department No. 2's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District Health Department No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of the District Health Department No. 2's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We identified the following deficiency in internal control that we consider to be a significant deficiency.

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the Health Department's financial statements. However, if at any point in the audit we as auditors are part of the Health Department's control system for producing reliable financial statements, auditing standards indicate that the Department has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We believe that management is capable of preparing the financial statements portion of the report; however, we recommend that management look into purchasing the 2005 Governmental Accounting, Auditing and Financial Reporting – Using the GASB 34 Model (commonly known as the "Blue Book"), to help train and assist management with the disclosures required for the financial statements. This guide is offered through the Government Finance Officers Association website at www.gfoa.org.

View of Responsible Officials:

The District Health Department No. 2 has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Authority to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

The District Health Department No. 2's response to the finding in our audit is described above. We did not audit the Health Department's response and, accordingly, we express no opinion on it.

Appendix II

Management Comments

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

We have also noted various items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

APPROVAL OF TIME CARDS

During the audit, it was noted that employees' time cards do not always contain documentation of approval by supervisors or managers. It is our understanding that approval is only required when an employee is being paid for hours in excess of their typical work day and when sick/vacation time is being used. Since the time cards are the source document supporting the Health Department's labor expenses, we recommend that employees be required to sign the time card and submit them to their supervisor or manager for approval every pay. Requiring signatures can help impress on employees the need for accuracy and honesty in filling out the time cards and that by signing it they are making a representation about those matters. Knowledge that the cards will be reviewed by the supervisor or manager will also encourage employees to fill out the cards accurately and honestly.

INVENTORY

It was noted that, at present, the Health Department does not maintain an accurate set of financial records during the year in relation to their vaccine inventory. The revenue and expenses related to the vaccine inventory are recorded and tracked on separate schedules; however, such transactions are not summarized in the general ledger until year end. Such a system does not permit the preparation of accurate and reliable financial statements throughout the year for management use. The importance of a good accounting system cannot be overemphasized. Without adequate financial records, management is basing its decision on incomplete and/or inaccurate information during the year, and additional time is spent at year end in preparing and auditing the financial statements.

TIME AND EFFORT REPORTING

Office of Management and Budget Circular A-87 requires when an employee is co-funded, that written schedules be prepared, signed, and dated by the employee and account for the person's total activity to substantiate the amount charged to the federal program. These schedules must also be prepared at least monthly, must coincide with one or more pay periods, and reflect an after the fact distribution of the actual activity of each employee. However, during the audit, we noted that payroll charges were based on a budgeted distribution table rather than actual time worked. Adjustments were not made to the budgeted distribution to reflect actual time worked. We recommend that management establish procedures to ensure that Circular A-87 is followed and that payroll charges are based on actual time worked which is then signed and dated by the individual employees.

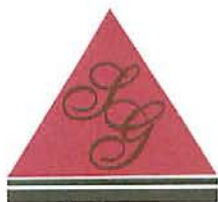
Appendix II
Management Comments

BUDGET APPROVAL

The Uniform Budgeting and Accounting Act and the State of Michigan require that the governmental entity's original budget be adopted prior to the start of the fiscal year. During the audit, we noted that the fiscal year 2008 original budget was not adopted until January 2008. We recommend that management establish procedures to ensure that all budgets are adopted by the required date.

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation			X	
Expenditures in some activities exceeded appropriated amounts.				X



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Kyle E. Troyer, CPA

Herman A. Bertuleit

DISTRICT HEALTH DEPARTMENT NO. 2
OGEMAW COUNTY, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED SEPTEMBER 30, 2008

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January 19, 2009

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board
District Health Department No. 2
Ogemaw County, Michigan

We have audited the financial statements of the governmental activities and the major fund of the District Health Department No. 2, Ogemaw County, Michigan, as of and for the year ended September 30, 2008, which collectively comprise the District Health Department No. 2's basic financial statements and have issued our report thereon dated January 19, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered District Health Department No. 2's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District Health Department No. 2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District Health Department No. 2's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District Health Department No. 2's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District Health Department No. 2's financial statements that is more than inconsequential will not be prevented or detected by the District Health Department No. 2's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 08-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District Health Department No. 2's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described as item 08-1 in the accompanying schedule of findings and questioned costs not to be a material weakness.

- 1 -

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District Health Department No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 08-2.

We noted certain matters that we have reported to management of the District Health Department No. 2 in a separate letter dated January 19, 2009.

District Health Department No. 2's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit District Health Department No. 2's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Health, the Michigan Department of Treasury, the Michigan Department of Community Health and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Graub & Co., P.C.



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January 19, 2009

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board
District Health Department No. 2
Ogemaw County, Michigan

Compliance

We have audited the compliance of District Health Department No. 2 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. District Health Department No. 2's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of District Health Department No. 2's management. Our responsibility is to express an opinion on District Health Department No. 2's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about District Health Department No. 2's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of District Health Department No. 2's compliance with those requirements.

In our opinion, District Health Department No. 2 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 08-2.

Internal Control Over Compliance

The management of District Health Department No. 2 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered District Health Department No. 2's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of District Health Department No. 2's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

District Health Department No. 2's responses to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit District Health Department No. 2's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and the major fund of the District Health Department No. 2, as of and for the year ended September 30, 2008, and have issued our report thereon dated January 19, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise District Health Department No. 2's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Health, the Michigan Department of Treasury, the Michigan Department of Community Health, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grubb & Co., P.C.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2008

Findings – Financial Statements Audit

07-1 Financial Statement Preparation

Condition: District Health Department No. 2's personnel prepare various financial information throughout the year to assess operations and the financial condition of the Health Department. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Health Department relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

Current Status: The finding is repeated in 2008.

Findings and Questioned Costs – Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ending September 30, 2007.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2008

Summary of Auditors' Results

- (1) The auditors' report expresses unqualified opinions on the financial statements of District Health Department No. 2.
- (2) One significant deficiency relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of District Health Department No. 2, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for District Health Department No. 2 expresses an unqualified opinion.
- (6) The auditors' report disclosed one audit finding relative to the major federal award programs for District Health Department No. 2.
- (7) The programs tested as major programs included:
CFDA #93.268 Immunization and Vaccine Provided
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) District Health Department No. 2 qualified as a low-risk auditee.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2008

Findings – Financial Statements Audit

08-1 Financial Statement Preparation

District Health Department No. 2 prepares various financial information throughout the year to assess operations and the financial condition of the Health Department. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Health Department relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

District Health Department No. 2 has individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Health Department is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Health Department would not be in a position to detect the errors or omissions.

Criteria: Accounting principles require personnel of District Health Department No. 2 have the knowledge to review and determine the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

Condition: District Health Department No. 2's personnel prepare various financial information throughout the year to assess operations and the financial condition of the Health Department. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Health Department relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

Questioned Costs: None.

Context: District Health Department No. 2 has individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

Effect: As a result, the Health Department is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Health Department would not be in a position to detect the errors or omissions.

View of Responsible Officials: The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2008

Findings and Questioned Costs - Major Federal Award Programs Audit

08-2 Support of Salaries and Wages Charged to Major Federal Award Program

Criteria: OMB Circular A-87 sets forth specific documentation guidelines in support of salaries and wages charged to federal programs. Specifically, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: they must reflect an after the fact distribution of the actual activity of each employee, they must account for the total activity for which each employee is compensated, they must be prepared at least monthly and must coincide with one or more pay periods, and they must be signed by the employee. If budget estimates or other distribution percentages are used, at least quarterly, comparisons of actual costs per personnel activity reports to distributions must be made. Costs charged to federal awards must reflect adjustments necessary to reconcile wages distributed to actual wages.

Condition: For certain District Health Department No. 2's personnel, salaries and wages are charged to federal programs based upon a yearly estimation of time to be spent on federal programs calculated using the prior year's timesheets. Charges are not adjusted during the year to reflect actual time worked on the programs.

Questioned Costs: None.

Context: Salaries and wages are not charged to federal programs in accordance requirements set forth in OMB Circular A-87.

Effect: Time charged to a federal program may not accurately reflect actual time spent on program activities.

Recommendation: We recommend the District Health Department No. 2 implement procedures to meet the requirements for support of salaries and wages set forth in OMB Circular A-87.

View of Responsible Officials: The District Health Department No. 2 will implement procedures to meet the requirements for support of salaries and wages set forth in OMB Circular A-87.

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2008

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at 10/1/07	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue at 9/30/08	Adjustments
<u>U.S. Department of Agriculture</u>								
Passed through Michigan Department of Community Health: Special Supplemental Nutrition Program for Women, Infants and Children: XX4W1006	10.557	\$ 230,787	\$ 0	\$ 0	\$ 230,787	\$ 230,787	\$ 0	\$ 0
<u>Environmental Protection Agency</u>								
Passed through the Michigan Department of Environmental Quality: Capital Grant for the Drinking Water Revolving Fund FS97548704	66.468	1,500	1,500	1,500	0	1,500	0	0
Reimbursement to Operators of Small Water Systems for Training and Certification Costs:	66.471							
FY 2007		11,550	6,600	1,650	0	1,650	0	0
FY 2008 CT975861		10,850	0	0	6,200	4,650	1,550	0
		22,400	6,600	1,650	6,200	6,300	1,550	0
Beach Monitoring and Notification Program Development Grants:	66.472							
FY 2007		8,778	8,778	8,778	0	8,778	0	0
FY 2008 CU96510601		10,294	0	0	10,294	5,147	5,147	0
		19,072	8,778	8,778	10,294	13,925	5,147	0
Total Environmental Protection Agency		42,972	16,878	11,928	16,494	21,725	6,697	0
<u>U.S. Department of Health and Human Services</u>								
Passed through St. Joseph Health Systems:								
SPRANS - Community Based Abstinence Grant 9/30/07	93.110	76,604	76,604	28,767	0	28,767	0	0
SPRANS - Community Based Abstinence Grant 9/30/08		67,418	0	0	67,418	45,656	21,762	0
		144,022	76,604	28,767	67,418	74,423	21,762	0

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2008

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at 10/1/07	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue at 9/30/08	Adjustments
<u>U.S. Department of Health and Human Services:</u> (Continued)								
Passed through Michigan Department of Community Health: Family Planning Services O5H000173	93.217	\$ 61,513	\$ 0	\$ 0	\$ 61,513	\$ 61,513	\$ 0	\$ 0
Passed through Michigan Department of Community Health: Immunization and Vaccine IAP H23 CCH522556	93.268	19,570	0	0	19,570	19,570	0	0
VFC Provider Site Visits 2H23IP522556		4,350	0	0	4,350	4,350	0	0
Immunization and Vaccine Handling Program H23 CCH522556		6,298	0	0	6,298	6,298	0	0
Immunization Nurse Education 2H23IP522556		300	0	0	300	300	0	0
Immunization and Vaccine Provided		420,661	0	0	420,661	420,661	0	0
		451,179	0	0	451,179	451,179	0	0
Passed through the Substance Abuse and Mental Health Services Administration: Drug Free Communities Support Program 5 H79 SP12939-02	93.276	100,000	0	45,563	100,000	133,516	12,047	0
Passed through Michigan Department of Community Health: Centers for Disease Control and Prevention - Investigations and Technical Assistance - Chronic Disease Prevention and Health Promotion:	93.283							
Bioterrorism Focus A CCU517018		171,844	0	0	171,844	171,844	0	0
Bioterrorism Pandemic Flu CCU517018		52,745	0	0	52,745	52,745	0	0
Breast and Cervical Cancer Control U57 CCU506738		87,300	0	0	75,951	87,300	(11,349)	0
Breast and Cervical Cancer Control U57 CCU506738		900	0	0	900	900	0	0
Chronic Disease Prevention and Health Promotion U58 CCU522826 01		25,906	0	0	25,906	25,906	0	0
		338,695	0	0	327,346	338,695	(11,349)	0
Passed through the Michigan Department of Human Services: Strong Families, Safe Children: SFSC-08-68001	93.556	24,000	0	0	24,000	24,000	0	0

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2008

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at 10/1/07	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue at 9/30/08	Adjustments
<u>U.S. Department of Health and Human Services:</u> (Continued)								
Temporary Assistance for Needy Families:	93.558							
Passed through the Michigan Department of Human Services: CTFPR-05-01001		\$ 162,250	\$ 0	\$ 0	\$ 162,250	\$ 112,620	\$ 49,630	\$ 0
Medicaid Cluster	93.778							
Passed through the Michigan Department of Community Health:								
Title XIX - Medicaid Outreach 50805MI5048		90,554	0	0	90,554	59,303	31,251	0
Medicaid Administration 5XX05M15048		15,376	0	0	15,376	15,376	0	0
CSHCS Care Coordination 50805M15048		18,472	0	0	18,472	13,854	4,618	0
		<u>124,402</u>	<u>0</u>	<u>0</u>	<u>124,402</u>	<u>88,533</u>	<u>35,869</u>	<u>0</u>
Passed through MIChoice:								
Medicaid Waiver Program		3,230	0	0	3,230	3,230	0	0
Total Medicaid Cluster		<u>127,632</u>	<u>0</u>	<u>0</u>	<u>127,632</u>	<u>91,763</u>	<u>35,869</u>	<u>0</u>
Passed through Michigan Department of Community Health: HIV Prevention Act Health Department Based U62 CCU523464	93.940	99	0	0	99	99	0	0
Passed through Northern Michigan Substance Abuse Services:								
Youth Tobacco Education DYTUR	93.959	6,012	4,810	2,497	0	2,497	0	0
Youth Tobacco Education DYTUR		8,149	0	0	6,009	2,940	3,069	0
		<u>14,161</u>	<u>4,810</u>	<u>2,497</u>	<u>6,009</u>	<u>5,437</u>	<u>3,069</u>	<u>0</u>
Passed through Michigan Department of Community Health:	93.994							
Maternal and Child Health Services Block Grant:								
Title V Case Management Services B1MIMCHS		10,874	0	0	10,874	10,874	0	0
Title V Local MCH F B1MIMCHS		50,462	0	0	50,462	50,462	0	0
		<u>61,336</u>	<u>0</u>	<u>0</u>	<u>61,336</u>	<u>61,336</u>	<u>0</u>	<u>0</u>
Total U.S. Department of Health and Human Services		<u>1,484,887</u>	<u>81,414</u>	<u>76,827</u>	<u>1,388,782</u>	<u>1,354,581</u>	<u>111,028</u>	<u>0</u>
Total Federal Awards		<u>\$ 1,758,646</u>	<u>\$ 98,292</u>	<u>\$ 88,755</u>	<u>\$ 1,636,063</u>	<u>\$ 1,607,093</u>	<u>\$ 117,725</u>	<u>\$ 0</u>

DISTRICT HEALTH DEPARTMENT NO. 2
Ogemaw County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2008

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Health Department's federal awards and does not present transactions that would be included in financial statements of the Health Department presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.

2. Reconciliation to financial statements:

Federal revenue presented in the financial statements	\$ 1,600,194
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Accounts receivable for the year ended September 30, 2008 received after 60 days after year-end and to be recognized as federal revenue in fiscal year September 30, 2009 financial statements:

Title XIX Medicaid Outreach 5085MI5048	31,251
CSHCS Care Coordination 5085MI5048	<u>4,618</u>

Federal revenue on the Schedule of Expenditures of Federal Awards	<u>\$ 1,636,063</u>
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